EXHIBIT 3
DATE 02/08/07
HB 131

2007 Legislative Session
House State Administration
February 8, 2007
Carole Carey, President
Montana Public Employees' Retirement Board

House Bill 131 – Generally Revise Public Employee Retirement Laws

(OBPP's Retirement System Funding Bill)

Chairman Himmelberger and members of the Committee, I am Carole Carey, President of the Public Employees' Retirement Board. Thank you for the opportunity to explain why the Board is taking a rather unusual position – opposition to a bill advanced by the Administration.

- Our Board recognizes and appreciates that the Administration, particularly Governor Schweitzer and Budget Director Ewer, is interested in ensuring that our public retirement systems are actuarially sound, as required by the Montana constitution.

- Our Board also recognizes that the Administration must weigh competing interests – tax payers, business owners, public employees and others.

- Our Board has only one interest to consider, and it comes from Article VIII, Section 15 of our Montana Constitution. We must "administer the retirement systems, including actuarial determinations, as fiduciaries of system participants and their beneficiaries."

- The Legislature has also tasked the Board with reviewing the sufficiency of benefits paid by the retirement systems and to recommend to the Legislature changes in benefits that may be necessary for members and their beneficiaries to maintain a stable standard of living. Section 19-2-403(9), MCA.

- Consistent with these Constitutional and Legislative mandates, the Board has adopted a Funding and Benefits Policy that controls the Board's evaluation of legislative proposals. It is attached to my testimony.

- House Bill 131 does not meet the criteria of a bill that can be supported by our Board.

- The Board can not support legislation that reduces retirement benefits to a level that does not keep pace with the standard of living when other funding options are available.

- The three underfunded retirement systems, the Public Employees' Retirement System (PERS), the Game Wardens' and Peace Officers' Retirement System (GWPORS) and the Sheriffs' Retirement System (SRS) can become actuarially sound with a relatively small increase in employer contributions to those systems. Those additional contributions can disappear once the systems are again actuarially sound.

- The other retirement systems administered by the Board are actuarially sound. There is no reason to either increase employer contributions to those systems or to reduce the retirement benefit of system members.

- We encourage the Committee to consider the needs of public sector retirees when comparing HB 131 to that proposed by the Board, HB 159.

- Thank you for considering the Board's position. I will be available for questions.

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MONTANA PUBLIC EMPLOYEES' RETIREMENT BOARD

TITLE: Funding and Benefit Policy

POLICY NO: BOARD Admin 01 EFFECTIVE DATE: 5/27/04

I. POLICY AND OBJECTIVES

The Public Employees' Retirement Board (the Board) has established the following general principles governing the funding and benefits of retirement systems under its jurisdiction. This policy is only a statement of intent and general approach. These are not precise rules that bind the Board to certain and specific actions.

It is the mission of the Board as fiduciaries to administer its retirement systems and trust funds acting in the best interests of the members and beneficiaries.

A. The Board is charged with administrating the retirement systems in accordance with the provisions of Title 19 of the Montana Code Annotated. The Board is required to approve or disapprove all expenditures of the systems, prepare a biennial actuarial valuation of the assets and liabilities of the systems, and perform other duties and functions as are required to properly administer and operate the retirement systems.

B. Board members are subject to a constitutional fiduciary duty to fund retirement benefits, Article VIII, Sections 13 and 15 of the Montana Constitution. The Constitution prohibits anyone from diverting the assets or the actuarially required contributions of the retirement systems. No employee or member of the retirement systems may have an interest in plan assets, borrow or use fund assets, or act as surety, obligor or endorser on loans to or by the systems.

C. The Montana Board of Investments (BOI) is charged with investing the Board's retirement systems' assets in accordance with state law and the state Constitution. The Constitution requires that the Board and the BOI operate under the "prudent expert principle". The Board's retirement systems have long-term horizons well beyond normal market cycles.

D. The future investment earnings of the assets of the retirement systems are assumed to accrue at a net annual rate of at least 8.00% over time, net of all administrative and investment-related expenses.

II. GENERAL PRINCIPLES

These general principles are established by the Public Employees' Retirement Board to provide a framework for the consistent evaluation of legislative proposals. The Board's position on proposed changes to benefits or systems will be determined on a case-by-case basis using these principles as guides. Some principles may not apply to the Public Employees' Retirement System's Defined Contribution Retirement Plan.

A. Legislation

1. **Proposals for increases or changes to retirement benefits must include an actuarially sufficient funding mechanism.** Proposals must provide funding from sources sufficient to cover future costs and to amortize any unfunded liabilities created by the proposal over a period of time appropriate to the retirement system, but not more than 30 years.

2. **Pension funding should be a contemporary obligation.** Whenever possible, pension funding should be the responsibility of the public employers, taxpayers and employees at the time services are provided. The Board will promote advanced funding of all benefits to ensure costs are not shifted to future taxpayers or contributors.

3. **Benefit enhancements should be equitably allocated among active members and retirees.** Any increased cost should be distributed among the generation of employers, taxpayers, and employees who receive the greatest benefit. Proposals should not discriminate against certain groups of members or retirees in favor of others or expend system assets disproportionately.

4. **A primary goal of a retirement system must be to provide financial security in retirement.** "Financial security in retirement" refers to basic financial protection for those who are beyond their normal working years and whose ability to be gainfully employed and earn other income is limited or non-existent.

5. **Public retirement plans should provide portability of benefits for workers who change jobs within the state and its political subdivisions.** Portability provisions must assure that actuarial costs will be paid for when transferring service between the systems.

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6. **The level of benefits and eligibility for benefits should be equitable across the state's public employee retirement systems.** Differences in benefit levels and eligibility criteria should be based on objective differences in the nature of the covered occupations or differences in coordination with other benefits such as social security.

7. **Proposals should promote consistent administration of public retirement systems.** The Board promotes consistent administrative provisions between the public retirement systems.

8. **The Board supports steps to improve the Board's ability to evaluate and review disabilities and the eligibility for disability benefits.**

9. **The Board supports steps to promote informed legislative involvement and decision-making in the formulation of Montana's public pension policy.**

B. Financial Solvency

1. **It is the goal of the Board that the retirement systems it administers become fully funded.** Once a system has achieved this goal, there needs to be a range of safety to absorb market volatility without creating unfunded actuarial liabilities. Surplus funds that may become available may be applied toward the cost of benefit enhancements and/or contribution reductions provided sufficient reserves are retained to reasonably allow for adverse experience.

2. **The Board will review existing funding levels for retirement systems with a funded ratio in excess of 120%.** The Board will consider a wide range of factors, both historical and prospective, in determining the range of safety required.

3. **It is the responsibility of the Board to report the financial solvency of the funds to the Legislature.** A single year's funded ratio, by itself, does not provide a measure of the direction the funding of the system is headed. However, either a trend which results in decreasing the funded ratio or the inability of the system to reduce the amortization period by one, for each passing year, may cause the Board to consider recommending rate increases. It is desirable that the funded ratio improves over time, allowing for a decrease in the ratio following benefit enhancements.

4. **It is the obligation of the Board to recommend funding increases.** Whenever, through the use of long term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the Board can not reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the Board to recommend to the Legislature that funding be increased.

III. CROSS REFERENCE GUIDE

The following laws, rules or policies may contain provisions that might modify a decision relating to the Funding and Benefit Policy. The list should not be considered exhaustive - others may apply.

Montana Constitution Article VIII, Sections 13 and 15
Section 19-2-303, MCA
Section 19-2-403, MCA
Section 19-2-405, MCA
Section 19-2-408, MCA
Section 19-2-409, MCA
Title 19, Chapter 2, Part 5, MCA
ARM 2.43.304
Board Policy O8-93 Actuarial Studies
Board Policy O1-01 Actuarial Assumptions

IV. HISTORY

G9-92 General Principles Governing the Board's Evaluation of Legislative Proposals
Originally approved September 1992
Amended March 24, 2005
O8-93 Actuarial Experience Studies
Originally approved August 1983
To be Amended
O4-94 Actuarial Assumptions
Originally approved April 1994
Amended December 27, 2000 (O1-01)
O1-01 Actuarial Assumptions
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